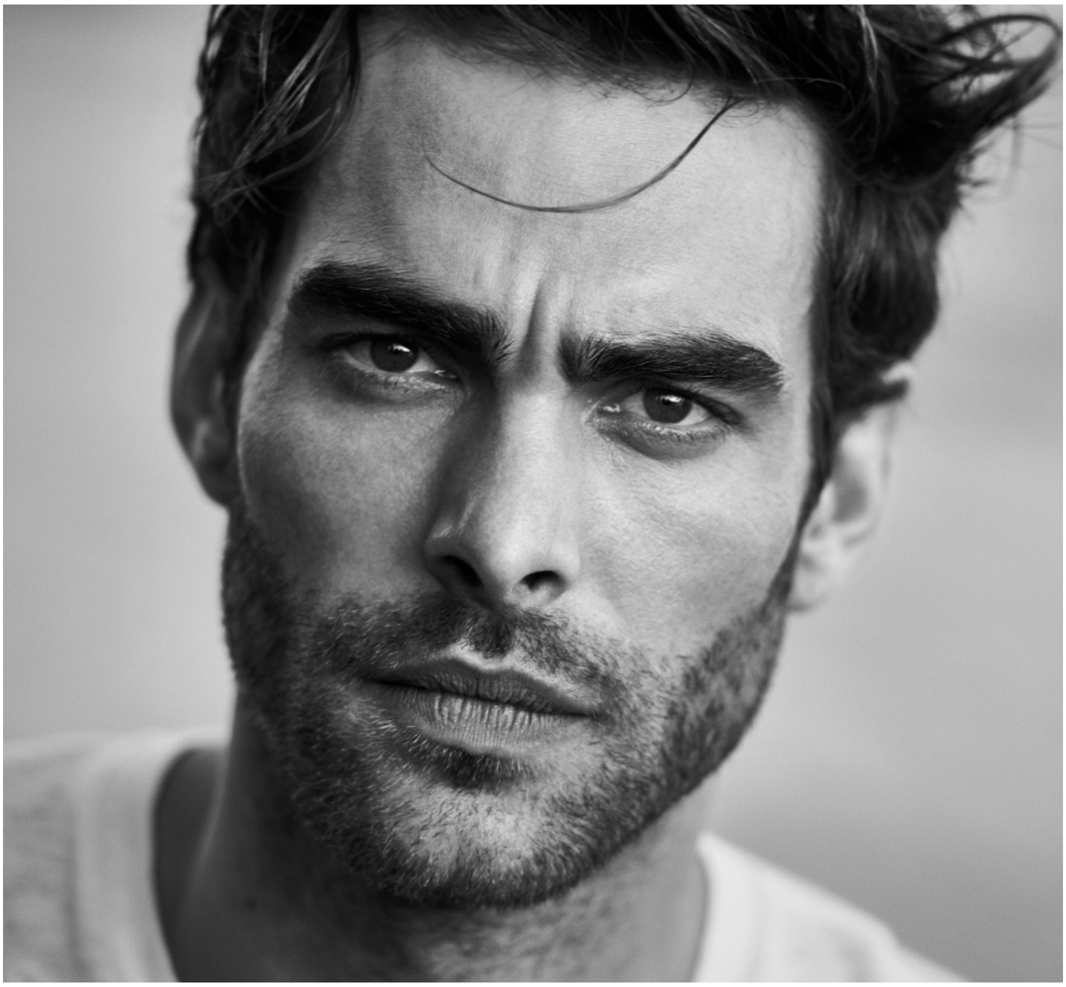

# 3M FY 2019/20
# Interim Financial Report

## Kirk Beauty One GmbH

as at December 31, 2019

DOUGLAS

# Content



The consolidated statements have been prepared in millions of Euro (€ million). Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide and percentages may not precisely reflect the absolute figures.

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# Disclosure Regarding Forward-Looking Statements

This financial report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "aims," "targets," "anticipates," "expects," "intends," "may," "will" or "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this financial report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate, other statements relating to our future business performance and general economic, regulatory and market trends and other circumstances relevant to our business.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this financial report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this financial report, those results or developments may not be indicative of results or developments in subsequent periods.

We undertake no obligation, and do not expect, to publicly update or revise any forward-looking statement to reflect actual results, changes in assumptions based on new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this financial report.

We suggest you to read the section of this financial report entitled *"Management's Discussion and Analysis of Financial Condition and Results of Operations" and the section "Risk Factors" of our Financial Report as at September 30, 2019* for a more detailed discussion of the factors that could affect our future performance and the industry in which we are operating.

# Management's Discussion and Analysis of Financial Condition and Results of Operations[1]

Investors should read the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" (hereinafter also referred to as "MD&A") together with the additional financial information contained elsewhere in this financial report including the financial statements and the related notes thereto. Our historical results are not necessarily indicative of the results to be expected in the future, and our interim results are not necessarily indicative of the results to be anticipated for the full financial year ending September 30, 2020 or any other period.

These Interim Consolidated Financial Statements have been prepared following IAS 34 Interim Financial Reporting, and should be read in conjunction with the Company's last Annual Consolidated Financial Statements as at and for the financial year ended September 30, 2019.

As of October 1, 2019 we are applying the new lease accounting standard "IFRS 16 Leases".

For the first-time application of IFRS 16 we choose, in accordance with the transitional requirements of IFRS 16, the modified retrospective approach. Accordingly the comparative figures for the prior-year reporting period or any other historical comparative figures (before October 1, 2019) have not been adjusted.

Following our current internal management approach and to provide decision-useful, comparable financial information, all current financial figures (from October 1, 2019) included in this section "Management's Discussion and Analysis of Financial Condition and Results of Operations" are stated before the impact of IFRS 16 lease effects.

For any IFRS 16 effects and disclosures we refer to the section "Interim Consolidated Financial Statements" of this report.

The results of operations and related cash flows in the following text and tables refer to three months of the financial year 2019/20, i.e. from October 1, 2019 to December 31, 2019 compared to three months of the financial year 2018/19, i.e. from October 1, 2018 to December 31, 2018.

All of the financial data presented in the text and tables below are shown in millions of Euro, except as otherwise stated. Certain financial data (including percentages) in the following tables have been rounded according to established commercial standards. This may lead to individual numbers presented throughout this report not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures. In respect of financial data set out in this financial report, a dash ("—") signifies that the relevant figure is not available or not applicable, while a zero ("0") signifies that the relevant figure is available but has been rounded to or equals zero.

[1] All figures stated in the MD&A are before the impact of IFRS 16.

## The Company

Kirk Beauty One GmbH ("Douglas", "Douglas-Group", "Kirk Beauty One Group", the "Group", the "Company",) is a German limited liability company (Gesellschaft mit beschränkter Haftung) incorporated on April 10, 2015 and has its registered office at Luise-Rainer-Straße 7-11, 40235 Düsseldorf/Germany.

Douglas is a leading European specialist retailer of selective beauty and personal care products who generates the vast majority of its sales in the selective beauty distribution channel, i.e. it requires the formal approval by a supplier to distribute a selective product, as opposed to the mass market channel. As of December 31, 2019, the Douglas Group operated in 26 European countries with about 2,300 own stores and round 140 franchise stores and diverse online shops and a dedicated beauty marketplace.

As the No.1 beauty destination in Europe and in line with our #FORWARDBEAUTY strategy - incorporating our five strategic pillars DOUGLAS Brand, Stores, E-Commerce, Assortment and CRM – we are closely monitoring our present footprint and constantly rethinking our market presence. Our overall aim is to expand our position as first point of contact on all beauty lifestyle needs and desires.

## Result of Operations[2]

The following table summarizes our financial performance for the periods indicated:

| | | 10/01/2019 - 12/31/2019 EUR m | 10/01/2018 - 12/31/2018 EUR m |
|---|---|---|---|
| 1. | Sales | 1,292.9 | 1,219.7 |
| 2. | Cost of raw materials, consumables and supplies and merchandise | -739.8 | -692.2 |
| 3. | Gross profit from retail business | 553.1 | 527.5 |
| 4. | Other operating income | 97.0 | 95.9 |
| 5. | Personnel expenses | -172.9 | -170.8 |
| 6. | Other operating expenses | -285.6 | -277.2 |
| 7. | Result from impairments on financial assets | -0.2 | 0.0 |
| 8. | EBITDA | 191.5 | 175.3 |
| | Effects non-recurring on a regular basis | 4.3 | 11.0 |
| | Adjusted EBITDA | 195.8 | 186.3 |
| 9. | Amortization/depreciation | -30.3 | -28.3 |
| 10. | EBIT | 161.2 | 147.0 |
| 11. | Financial income | 12.8 | 10.9 |
| 12. | Financial expenses | -29.4 | -29.7 |
| 13. | Financial result | -16.6 | -18.8 |
| 14. | Earnings (loss) before tax (EBT) | 144.6 | 128.2 |
| 15. | Income taxes | -33.9 | -37.7 |
| 16. | Profit (loss) for the period | 110.7 | 90.5 |

[2] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

## Three Months Ended December 31, 2019 compared to Three Months Ended December 31, 2018[3]

### Sales (net) (i.e. sales generated from third parties)

Total sales (net) increased versus previous year reporting period by very strong 6.0 percent, resulting from our strong organic growth, in particular online, fueled by successful campaigns around key events such as Singles' Day, Black Friday and Christmas business. All reportable segments managed to increase their sales through both channels in the first quarter of the financial year 2019/20 compared to the first quarter of the financial year 2018/19. Also, on a like-for-like basis our sales (net) increased significantly by 5.5 percent, a strong testimony of our strategy #FORWARDBEAUTY.

Our total online sales increased by an excellent 23.2 percent compared to the prior-year reporting period.

Sales (net) in our four reportable segments – **Germany**, **France**, **South-Western Europe** and **Eastern Europe** – developed in the first quarter of the financial year 2019/20 compared to the prior-year reporting period as follows:

Sales (net) in **Germany** increased by excellent €35.1 million or 7.9 percent. This increase in sales, in particular online-driven but also from store-business, is mainly attributable to positive effects of #FORWARDBEAUTY and the successful business around key events as mentioned above. Online sales grew by excellent 23.5% and on a like-for-like basis our sales (net) in Germany increased strongly by 6.6 percent.

In **France** sales (net) exceeded prior-year period with positive 3.0 percent, resulting from both a significant growth of online sales and good sales in stores. This solid increase in sales, already at a high level, reflects the attractive and healthy French business, particularly in the context of still ongoing yellow vest riots and strikes. On a like-for-like basis our sales (net) in France increased by respectable 2.8 percent.

Sales (net) in **South-Western Europe** grew strongly versus previous year by 3.9 percent. Like-for-like sales for the South-Western Region, with Italy and Spain as leading countries, improved even stronger by 4.7 percent due to effects from store closures.

In **Eastern Europe** sales (net) increased by an outstanding 13.0 percent. The sales increase was driven by a strong store performance as well as a significant increase in online sales. On a like-for-like basis our sales (net) in Eastern Europe increased by excellent 10.5 percent.

### Cost of raw materials, consumables, supplies and merchandise

The cost of raw materials, consumables, supplies and merchandise for the first three months of the financial year 2019/20 amounted to €739.8 million (57.2 percent of total sales) compared to €692.2 million (56.8 percent of total sales) for the three months ended December 31, 2018. Corresponding to our net sales this step change is mainly due to strong overall sales.

Adjusted for non-recurring effects on a regular basis resulting from PPA-effects of our acquisition the adjusted cost of raw materials, consumables, supplies and merchandise for the three months ended December 31, 2019 amounted to €739.7 million (57.2 percent of total sales) compared to €690.3 million (56.6 percent of total sales) for the three months ended December 31, 2018.

### Gross Profit

Our Gross Profit increased by €25.6 million or 4.9 percent to €553.1 million during the first three months of the financial year 2019/20. Our adjusted gross margin decreased slightly by

[3] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

0.6 percentage points, to 42.8 percent, still reflecting our high profitability especially against the background of the very competitive environment.

## Other operating income

Other operating income accounted for €97.0 million compared to €95.9 million for the three months ended December 31, 2018. This increase was mainly affected by higher marketing income and other income partially compensated by lower income from reversal of provisions.

Adjusted for extraordinary effects resulting from other non-recurring effects on a regular basis accounting for €6.3 million, adjusted other operating income as a percentage of total sales accounted for 7.0 percent compared to 7.8 percent during the three months ended December 31, 2018.

## Personnel expenses

Personal expenses accounted for €172.9 million compared to 170.8 million for the three months ended December 31, 2018. Adjusted for non-recurring effects on a regular basis amounting to €1.0 million, the adjusted personnel expenses as a percentage of total sales improved, accounting for 13.3 percent compared to 13.8 percent during the three months ended December 31, 2018.

## Other operating expenses

Other operating expenses accounted for €285.7 million compared to €277.3 million for the three months ended December 31, 2018. This increase was mainly affected by higher marketing and advertising expenses and goods handling costs partially compensated by lower other expenses. Adjusted for the reclassification of credit card fees to the financial result and non-recurring effects on a regular basis in the form of consulting fees, other operating expenses as a percentage of total sales decreased to 21.4 percent from 22.2 percent in the first three months of the financial year 2018/19.

## EBITDA and Adjusted EBITDA[4]

The EBITDA increased by 9.2 percent to €191.5 million during the first three months of the financial year 2019/20, especially related to higher sales driven by strong performance of the underlying business.

Adjusted EBITDA increased by 5.1 percent to €195.8 million during the three months ended December 31, 2019 from €186.3 million during the three months ended December 31, 2018.

As a percentage of sales (net), adjusted EBITDA has been slightly below prior-year level. Total adjustments for non-recurring items on a regular basis and credit card fees decreased by €6.7 million to €4.3million during the first three months of the financial year 2019/20 compared to €11.0 million during the first three months of the financial year 2018/19. This decrease essentially results from higher extraordinary income reported in other non-recurring effects on a regular basis and besides from lower PPA and restructuring costs referring to the acquisitions compared to the prior-year reporting period.

EBITDA and Adjusted EBITDA in our four reportable segments – Germany, France, South-Western Europe and Eastern Europe – developed in the first quarter of the financial year 2019/20 compared to the prior-year reporting period as follows:

Adjusted EBITDA in Germany increased by €5.6 million to €42.4 million during the three months ended December 31, 2019 from €36.8 million during the three months ended December 31, 2018. Adjustments on EBITDA of the German reporting segment totaled €0.0 million during the three

[4] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

months ended December 31, 2019, primarily resulting from consulting fees and credit card fees fully compensated by extraordinary income reported in other non-recurring effects on a regular basis.

Adjusted EBITDA margin increased by 0.6 percentage points from 8.3 percent to 8.8 percent.

Adjusted EBITDA in France increased by €0.7 million to €68.1 million during the three months ended December 31, 2019 from €67.4 million during the three months ended December 31, 2018. This improvement reflects the strong French business at a high level. Adjustments of €2.4 million during the three months ended December 31, 2019 exclusively related to credit card fees.

Compared to prior-year period adjusted EBITDA in South-Western Europe increased during the three months ended December 31, 2019 by €1.7 million from €55.5 million to €57.2 million, resulting especially from sales development. The adjustments of €1.2 million during the three months ended December 31, 2019 are primarily attributable to credit card fees.

During the first quarter of the financial year 2019/20 adjusted EBITDA in the Eastern Europe segment grew above prior-year level by €1.3 million from €26.6 million to €27.9 million in line with the growth path established over the past few years, with minor investments into still very attractive margins. The adjustments of €0.6 million during the three months ended December 31, 2019 almost exclusively resulted from credit card fees.

## EBIT

In the first three months of the financial year 2019/20, EBIT increased by €14.2 million to €161.2 million from €147.0 million during the three months ended December 31, 2018. Amortization and depreciation expenses are slightly above prior year's level, hence we refer to the above section "EBITDA and adjusted EBITDA".

## Financial result

Due to higher interest income from receivables, the financial result increased by €2.2 million to minus €16.6 million during the three months ended December 31, 2019 from minus €18.8 million compared to the three months of the financial year 2018/19.

## Income taxes

Income tax expenses amounted to €33.9 million during the three months ended December 31, 2019 compared to €37.7 million during the three months ended December 31, 2018.[5]

## Profit and Adjusted Profit[6]

As a result of the foregoing, our profit for the three months ended December 31, 2019 amounted to €110.7 million, compared to our profit amounting to €90.5 million during the three months ended December 31, 2018. Adjusted profit during the three months ended December 31, 2019 amounted to €109.6 million compared to €94.9 million in the prior-year reporting period.

The adjustments in respect of EBITDA, already being disclosed above in the section "EBITDA and Adjusted EBITDA" and totaling €4.3 million in the first three months ended December 31, 2019 are overcompensated by the reclassification of credit card fees and valuation effects of financial instruments totaling minus €5.8 million. The calculated income taxes on adjustments account for €0.5 million.

[5] This change is also due to the fact that income taxes are calculated during the year on the basis of planning results.

[6] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

## Segment Reporting

In conformity with IFRS 8 “Operating Segments”, the reporting segments are categorized based on their organizational and decision-making structure and the content of the internal reporting to the chief operating decision-maker. Unchanged to the financial year ended September 30, 2019, the Douglas Group’s countries are classified as operating segments which are allocated to the reportable segments Germany, France, South-Western Europe and Eastern Europe.

Except for the adjustments of the expenses and income that the management considers to be non-recurring effects on a regular basis, credit card fees which are reclassified to the financial result and all IFRS 16 effects, the segment results of the operating segments are determined in accordance with the IFRS accounting and valuation methods. Transfers between segments are generally performed at the same prices that would apply if the transaction were executed with third parties (arm’s length transactions).

Segment sales represent sales with external third parties. Intersegment sales present sales between individual segments. The allocation of segment sales is based on the registered office of the selling unit. The segment performance indicator is Adjusted EBITDA. Adjusted EBITDA is the DOUGLAS Group’s key performance indicator that is used to assess the performance of the segments and manage resource allocation. Adjusted EBITDA is also decisive for calculating the underlying covenants of loan financing. To calculate this key performance indicator, EBITDA is adjusted for items that the Kirk Beauty One management considers to be non-recurring effects on a regular basis and credit card fees which are reclassified to the financial result and besides all IFRS 16 effects.

## Sales[7]

The following table shows the external sales of our segments, which exclude sales between segments, for the periods indicated:

| | 10/01/2019 - 12/31/2019 | 10/01/2018 - 12/31/2018 |
|---|---|---|
| | EUR m | EUR m |
| **Sales** | 1,292.9 | 1,219.7 |
| **Segments** | | |
| Germany | | |
| Sales (net) | 480.9 | 445.8 |
| Intersegment sales | 13.2 | 19.0 |
| Sales | 494.1 | 464.8 |
| France | | |
| Sales (net) | 309.1 | 300.2 |
| Intersegment sales | 0.0 | 0.0 |
| Sales | 309.1 | 300.2 |
| South-Western Europe | | |
| Sales (net) | 369.4 | 355.6 |
| Intersegment sales | 0.0 | 0.0 |
| Sales | 369.4 | 355.6 |
| Eastern Europe | | |
| Sales (net) | 133.5 | 118.1 |
| Intersegment sales | 0.0 | 0.0 |
| Sales | 133.5 | 118.1 |

## EBITDA and Adjusted EBITDA

We evaluate each of our business segments using a measure that reflects all the segment's income and expenses. We believe the most appropriate measure in this regard is Adjusted EBITDA as it is helpful for investors as a measurement of the segment's ability to generate cash and to service financing obligations. EBITDA and Adjusted EBITDA are non-IFRS measures. To obtain Adjusted EBITDA, we adjust our EBITDA for non-recurring items on a regular basis, credit card fees which are reclassified to the financial result and besides all IFRS 16 lease-effects. Non-recurring items on a regular basis include, but are not limited to PPA effects, consulting fees, restructuring costs, extraordinary financing costs such as fees and other extraordinary costs. The definition of items included in non-recurring items on a regular basis is unchanged compared to the Kirk Beauty One IFRS Consolidated Financial Statements as at September 30, 2019.

Because not all companies that publish financial information calculate EBITDA and Adjusted EBITDA on a uniform basis, our presentation of these measures may not be comparable to measures under the same or similar names used by other companies. Accordingly, undue reliance should not be placed on these measures.

[7] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

The following table shows our EBITDA and Adjusted EBITDA separated by segments for the periods indicated:[8]

| | | 10/01/2019 - 12/31/2019 | 10/01/2018 - 12/31/2018 |
|---|---|---|---|
| **Douglas-Group** | | | |
| EBITDA | EUR m | 191,5 | 175.3 |
| EBITDA-margin | % | 14,8 | 14.4 |
| Effects non-recurring on a regular basis | EUR m | 4,3 | 11.0 |
| Adjusted EBITDA | EUR m | 195.8 | 186.3 |
| Adjusted EBITDA-margin | % | 15.1 | 15.3 |
| **Segments** | | | |
| **Germany** | | | |
| EBITDA | EUR m | 42,4 | 32.0 |
| EBITDA-margin | % | 8,8 | 7.2 |
| Effects non-recurring on a regular basis | EUR m | 0,0 | 4.8 |
| Adjusted EBITDA | EUR m | 42.4 | 36.8 |
| Adjusted EBITDA-margin | % | 8.8 | 8.3 |
| **France** | | | |
| EBITDA | EUR m | 65.7 | 64.1 |
| EBITDA-margin | % | 21.2 | 21.4 |
| Effects non-recurring on a regular basis | EUR m | 2.4 | 3.3 |
| Adjusted EBITDA | EUR m | 68.1 | 67.4 |
| Adjusted EBITDA-margin | % | 22.0 | 22.4 |
| **South-Western Europe** | | | |
| EBITDA | EUR m | 56.0 | 53.5 |
| EBITDA-margin | % | 15.1 | 15.0 |
| Effects non-recurring on a regular basis | EUR m | 1.2 | 2.0 |
| Adjusted EBITDA | EUR m | 57.2 | 55.5 |
| Adjusted EBITDA-margin | % | 15.5 | 15.6 |
| **Eastern Europe** | | | |
| EBITDA | EUR m | 27.3 | 25.6 |
| EBITDA-margin | % | 20.4 | 21.7 |
| Effects non-recurring on a regular basis | EUR m | 0.6 | 1.0 |
| Adjusted EBITDA | EUR m | 27.9 | 26.6 |
| Adjusted EBITDA-margin | % | 20.9 | 22.5 |

[8] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

## Liquidity and Capital Resources

### Overview

The main sources of liquidity on an ongoing basis are the operating cash flows and a liquidity reserve from our €200.0 million senior secured multi-currency revolving credit facility (the "Revolving Credit Facility" or "RCF"). Our ability to generate cash depends on our operating performance which in turn depends to some extent on general economic, financial, competitive, legislative, regulatory and other factors, many of which are beyond our control. We believe that, based on our current level of operations as reflected in our results of operations for the three months ended December 31, 2019, our cash flows from operating activities, cash on hand and the availability of borrowings under our Revolving Credit Facility will be sufficient to fund our operations, capital expenditures and debt service for at least the next twelve months. As of December 31, 2019, there were no outstanding borrowings under the Revolving Credit Facility. [9]

The ability of the subsidiaries to pay dividends and make other payments to us may be restricted by, among other things, legal prohibitions on such payments or otherwise distributing funds to us, including for the purpose of servicing debt.

We anticipate that we will continue to be leveraged in the foreseeable future. Our current level of debt may have negative consequences. In addition, any additional indebtedness that we do incur could reduce the amount of our cash flow available to make payments on our then existing indebtedness and increase our leverage.

### Net Working Capital

We define our net working capital as the sum of the line items (i) inventories, (ii) trade accounts receivable, (iii) trade accounts payable (including trade accounts payable related to investments in non-current assets), as well as (iv) other receivables and liabilities related to supplier receivables for rebates/bonuses and marketing subsidies and outstanding voucher liabilities. Our net working capital shows seasonal patterns with investments in inventory generally reaching a peak in October and November while our trade payables typically peak in December. The development of our net working capital is a key factor for our operating cash flow.

The following table summarizes our net working capital as at the dates indicated:

| | 12/31/2019 | 12/31/2018 |
|---|---|---|
| | EUR m | EUR m |
| Inventories | 802.7 | 816.6 |
| Trade accounts receivable | 75.9 | 77.0 |
| Trade accounts payable | -736.9 | -804.5 |
| Other | 62.4 | 55.2 |
| Net Working Capital | 204.2 | 144.2 |

Net Working Capital increased by €63.0 million to €207.2 million as of December 31, 2019. This increase is mainly a result of lower trade account payables due to timing effects and lower inventories because of our focus on a tight inventory management.

[9] Available amount for borrowings is reduced by €13.9 million rental guarantees.

## Investments in non-current assets

The investments made during the first quarter of the financial year 2019/20 mainly related to investments in the refurbishment, maintenance, design and re-design of existing stores and new store openings as well as IT and E-commerce.

The main source of funding for these investments has been and is likely to continue to be positive cash flow from operating activities.

In the three months ended December 31, 2019, our investments in non-current assets (cash outflow) amounted to €31.1 million, compared to €37.1 million in the prior-year reporting period.

The investments in non-current assets during the first quarter of the financial year 2019/20 consisted of €18.9 million additions in tangible and intangible assets as well as provisions for outstanding invoices on fixed assets of €12.2 million.

## Consolidated Cash Flow Data[10]

| | | | 10/01/2019-12/31/2019 EUR m | 10/01/2018-12/31/2018 EUR m |
|---|---|---|---|---|
| 1. | = | EBITDA | 191.5 | 175.3 |
| 2. | +/- | Increase/decrease in provisions | -6.4 | -16.1 |
| 3. | +/- | Other non-cash expense/income | 0.4 | -0.3 |
| 4. | +/- | Changes in net working capital without liabilities from investments in non-current assets | 96.7 | 102.8 |
| 5. | +/- | Changes in other assets/liabilities not classifiable to investing or financing activities | 67.5 | 55.9 |
| 6. | -/+ | Paid/reimbursed taxes | -6.8 | -12.0 |
| **7.** | **=** | **Net cash flow from operating activities** | **342.9** | 305.6 |
| 8. | + | Proceeds from the disposal of non-current assets | 0.1 | 0.9 |
| 9. | - | Investments in non-current assets | -31.1 | -37.1 |
| **10.** | **=** | **Net cash flow from investing activities** | **-31.1** | -36.3 |
| **11.** | | **Free cash flow (total of 7. and 10.)** | **311.9** | 269.3 |
| 12. | - | Payments for the repayment of financial liabilities | -16.1 | -0.8 |
| 13. | + | Proceeds from borrowings | 1.1 | 1.0 |
| 14. | - | Interest paid | -15.6 | -15.6 |
| **15.** | **=** | **Net cash flow from financing activities** | **-30.7** | -15.1 |
| **16.** | | **Net change in cash and cash equivalents (total of 7., 11. and 15.)** | **281.2** | 254.2 |
| 17. | +/- | Net change in cash and cash equivalents due to currency translation | 0.2 | -0.1 |
| 18. | + | Cash and cash equivalents at the beginning of the reporting period | 81.0 | 102.9 |
| **19.** | **=** | **Cash and cash equivalents at the end of the reporting period** | **362.4** | 357.0 |

### Cash Flow from operating activities

Cash provided by **operating activities** increased by €37.4 million, to €342.9 million during the three months ended December 31, 2019, from €305.6 million during the three months ended December 31, 2018. This increase was mainly the result of a higher EBITDA and higher changes in other assets/liabilities not classifiable to investing or financing activities.

### Cash Flow from investing activities

Cash used for **investing activities** (cash outflows) decreased by €5.2 million to €31.1 million during the three months ended December 31, 2019, from €36.3 million during the three months ended December 31, 2018. This decrease is related to lower investments in non-current assets, as we have finished rebranding of our stores and related less overspill in the first quarter of the financial year 2019/20 compared to the prior year reporting period.

### Cash Flow from financing activities

During the three months ended December 31, 2019, cash used for **financing activities** (cash outflows) amounted to € 30.7 million compared to cash outflows of € 15.1 million during the three months ended December 31, 2018. The increase of €15.6 million primarily relates to the increase of

[10] Like aforementioned, all figures stated in the MD&A are before the impact of IFRS 16.

payments for the repayment of financial liabilities accounting for €15.4 million in connection with a payment of a remaining purchase price.

## Liquidity as at December 31, 2019

As at December 31, 2019 the cash balance amounted to € 362.4 million. Our net debt position includes the nominal values of the Term Loan B Facility and the Notes as of December 31, 2019.

| | 12/31/2019 | 12/31/2018 |
|---|---|---|
| | EUR m | EUR m |
| Term Loan B | -1,670.0 | -1,670.0 |
| Senior Notes | -335.0 | -335.0 |
| Senior Secured Notes | -300.0 | -300.0 |
| Accrued interests | -22.34 | -22.6 |
| Other financial indebtedness | -0.1 | -0.6 |
| Total Debt | -2,327.4 | -2,328.3 |
| Cash and cash equivalents | 362.4 | 357.0 |
| **Net Debt** | **-1,965.0** | -1,971.3 |

# Interim Consolidated Financial Statements

*of Kirk Beauty One GmbH for the period from October 1, 2019 through December 31, 2019 and for the period from October 1, 2018 through December 31, 2018.*

# Interim Consolidated Statement of Profit or Loss

*of Kirk Beauty One GmbH for the period from October 1, 2019 through December 31, 2019 and for the period from October 1, 2018 through December 31, 2018.*

| | | 10/01/2019-12/31/2019 EUR m | 10/01/2018-12/31/2018 EUR m |
|---|---|---|---|
| 1. | Sales | 1,292.9 | 1,219.7 |
| 2. | Cost of raw materials, consumables and supplies and merchandise | -739.8 | -692.2 |
| 3. | Gross profit from retail business | 553.1 | 527.5 |
| 4. | Other operating income | 97.0 | 95.9 |
| 5. | Personnel expenses | -172.9 | -170.8 |
| 6. | Other operating expenses | -212.7[11] | -277.2 |
| 7. | Result from impairments on financial assets | -0.2 | 0.0 |
| **8.** | **EBITDA** | **264.4[12]** | 175.3 |
| 9. | Amortization/depreciation | -103.2[13] | -28.3 |
| **10.** | **EBIT** | **161.3** | 147.0 |
| 11. | Financial income | 12.8 | 10.9 |
| 12. | Financial expenses | -33.4[14] | -29.7 |
| 13. | Financial result | -20.7 | -18.8 |
| **14.** | **Earnings (loss) before tax (EBT)** | **140.6** | 128.2 |
| 15. | Income taxes | -33.9 | -37.7 |
| **16.** | **Profit (+) or Loss (-) of the period** | **106.7[15]** | 90.5 |
| | *Attributable to owners of the parent* | *106.7* | *90.5* |
| | *Attributable to non-controlling interests* | *0.0* | *0.0* |

[11] Included IFRS 16 effect: Other operating expenses decreased by €73.0 million
[12] EBITDA for the first quarter of the financial year 2019/20 included the positive lease effect from applying "IFRS 16 leases" amounting to €73 million. Adjusted for this IFRS16 effect, EBITDA account for €191.5 million
[13] Included IFRS 16 effect: Depreciation increased by €72.9 million
[14] Included IFRS 16 effect: Financial expenses increased by €4.1 million, hence the financial result decreased by €4.1 million
[15] Included IFRS 16 effect: Profit decreased by €4.0 million

# Interim Consolidated Reconciliation from Profit or Loss to Total Comprehensive Income

*of Kirk Beauty One GmbH for the period from October 1, 2019 through December 31, 2019 and for the period from October 1, 2018 through December 31, 2018.*

| | 10/01/2019-12/31/2019 EUR m | 10/01/2018-12/31/2018 EUR m |
|---|---|---|
| Profit (+) or Loss (-) of the period | 106.7 | 90.5 |
| **Components that are or may be reclassified subsequently to the income statement** | | |
| Foreign currency translation differences arising from translating the financial statements of a foreign operation | 1.5 | -0.3 |
| **Components that will not be reclassified to profit or loss** | | |
| Actuarial gains/losses from pension provisions | 0.0 | 0.0 |
| Other comprehensive income | 1.5 | -0.3 |
| **Total comprehensive income** | **108.2** | 90.2 |
| *Attributable to owners of the parent* | *108.2* | *90.2* |
| *Attributable to non-controlling interests* | *0.0* | *0.0* |

# Interim Consolidated Statement of Financial Position

*of Kirk Beauty One GmbH as of December 31, 2019 and 2018 and as of September 30, 2019.*

| **Assets** | | **12/31/2019 EUR m** | 12/31/2018 EUR m | **09/30/2019 EUR m** |
|---|---|---|---|---|
| A. | Non-current assets | | | |
| I. | Intangible assets | 2,344.5 | 2,355.9 | 2,347.6 |
| II. | Property, plant and equipment | 285.2 | 310.0 | 292.8 |
| III. | Right-of-use assets from leases[16] | 1,300.0[17] | 0.0 | 0.0 |
| IV. | Tax receivables | 0.0 | 0.0 | 0.0 |
| V. | Financial assets | 579.7 | 387.3 | 569.8 |
| VI. | Shares in associated companies | 0.0 | 0.0 | 0.0 |
| VII. | Deferred tax assets | 86.8 | 64.6 | 85.6 |
| | | 4,596.2 | 3,117.7 | 3,295.8 |
| B. | Current assets | | | |
| I. | Inventories | 802.7 | 816.6 | 744.4 |
| II. | Trade accounts receivable | 75.9 | 77.0 | 45.7 |
| III. | Tax receivables | 30.2 | 37.8 | 30.6 |
| IV. | Financial assets | 289.2[18] | 472.9 | 155.4 |
| V. | Other assets | 24.4 | 33.5 | 30.1 |
| VI. | Cash and cash equivalents | 362.4 | 357.0 | 81.0 |
| | | 1,584.8 | 1,794.6 | 1,087.3 |
| **Total** | | **6,181.0** | 4,912.3 | **4,383.0** |

[16] Predominantly from store leasing.
[17] Full IFRS 16 effect from capitalization of discounted lease payment obligations.
[18] Included IFRS 16 effect: Financial assets increased by €11.8 million.

| Equity and Liabilities | | 12/31/2019<br>EUR m | 12/31/2018<br>EUR m | 09/30/2019<br>EUR m |
|---|---|---|---|---|
| A. | Equity | | | |
| I. | Capital stock | 0.0 | 0.0 | 0.0 |
| II. | Additional paid-in capital | 1,125.1 | 1,125.1 | 1,125.1 |
| III. | Reserves | -157.8[19] | -138.0 | -266.0 |
| IV. | Non-controlling interests | 0.0 | 0.0 | 0.0 |
| | | **967.3** | 987.1 | **859.1** |
| | | | | |
| B. | Non-current liabilities | | | |
| I. | Pension provisions | 39.8 | 33.1 | 40.1 |
| II. | Other non-current provisions | 53.1 | 41.7 | 53.8 |
| III. | Financial liabilities | 3,361.1[20] | 2,306.4 | 2,313.5 |
| IV. | Other liabilities | 9.8 | 6.3 | 8.9 |
| V. | Deferred tax liabilities | 194.9 | 206.3 | 196.9 |
| | | **3,658.6** | 2,593.9 | **2,613.2** |
| | | | | |
| C. | Current liabilities | | | |
| I. | Current provisions | 109.2 | 86.9 | 114.6 |
| II. | Trade accounts payable | 736.9 | 804.5 | 487.0 |
| III. | Tax liabilities | 146.8 | 135.9 | 60.9 |
| IV. | Financial liabilities | 306.5[21] | 51.1 | 37.5 |
| V. | Other liabilities | 255.6 | 252.9 | 210.8 |
| | | **1,555.1** | 1,331.3 | **910.8** |
| **Total** | | **6,181.0** | 4,912.3 | **4,383.0** |

[19] Included IFRS 16 effect: Reserves decreased by €4.0 million, resulting from Profit or Loss.
[20] Included IFRS 16 effect: non-current financial liabilities increased by €1,047.0 million.
[21] Included IFRS 16 effect: current financial liabilities increased by € 268.9 million.

# Interim Statement of Changes in Group Equity

*of Kirk Beauty One GmbH for the period from October 1, 2019 through December 31, 2019 and for the period from October 1, 2018 through December 31, 2018.*

| | | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | |
| | Capital stock EUR m | Additional paid-in capital EUR m | Other reserves EUR m | Reserves for pension provisions EUR m | Differences from currency translation EUR m | Total EUR m | Non-controlling interests EUR m |
| 10/01/2019 | 0.0 | 1,125.1 | -260.2 | -2.9 | -2.9 | 859.0 | 0.0 |
| Currency translation | | | | | 1.5 | 1.5 | |
| Profit (+) or Loss (-) of the period | | | 106.7 | | | 106.7 | 0.0 |
| Total comprehensive income | 0.0 | 0.0 | 106.7 | 0.0 | 1.5 | 108.2 | 0.0 |
| Transactions with shareholders | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **12/31/2019** | **0.0** | **1,125.1** | **-153.5** | **-2.9** | **-1.4** | **967.3** | **0.0** |

| | | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Reserves | | | | |
| | Capital stock EUR m | Additional paid-in capital EUR m | Other reserves EUR m | Reserves for pension provisions EUR m | Differences from currency translation EUR m | Total EUR m | Non-controlling interests EUR m |
| 10/01/2018 | 0.0 | 1,125.1 | -229.0 | 2.5 | -1.6 | 896.9 | 0.0 |
| Currency translation | | | | | -0.3 | -0.3 | |
| Profit (+) or Loss (-) of the period | | | 90.5 | | | 90.5 | 0.0 |
| Total comprehensive income | 0.0 | 0.0 | 90.5 | 0.0 | -0.3 | 90.2 | 0.0 |
| Transactions with shareholders | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 12/31/2018 | 0.0 | 1,125.1 | -138.5 | 2.5 | -1.9 | 987.1 | 0.0 |

# Interim Consolidated Statement of Cash Flows

*of Kirk Beauty One GmbH for the period from October 1, 2019 through December 31, 2019 and for the period from October 1, 2018 through December 31, 2018.*

| | | | 10/01/2019-12/31/2019 EUR m | 10/01/2018-12/31/2018 EUR m |
|---|---|---|---|---|
| 1. | | Profit (+) or Loss (-) of the period | 106.7 | 90.5 |
| 2. | + | Income taxes | 33.9 | 37.7 |
| 3. | + | Financial result | 20.7 | 18.8 |
| 4. | + | Amortization/depreciation | 103.2 | 28.3 |
| 5. | = | EBITDA | 264.4 | 175.3 |
| 6. | +/- | Increase/decrease in provisions | -6.4 | -16.1 |
| 7. | +/- | Other non-cash expense/income | 0.0 | -0.3 |
| 8. | +/- | Changes in net working capital without liabilities from investments in non-current assets | 96.7 | 102.8 |
| 9. | +/- | Changes in other assets/liabilities not classifiable to investing or financing activities | 67.5 | 55.9 |
| 10. | -/+ | Paid/reimbursed taxes | -6.8 | -12.0 |
| **11.** | **=** | **Net cash flow from operating activities** | **415.5**[22] | 305.6 |
| 12. | + | Proceeds from the disposal of non-current assets | 0.1 | 0.9 |
| 13. | - | Investments in non-current assets | -31.1 | -37.1 |
| **14.** | **=** | **Net cash flow from investing activities** | **-31.1** | -36.3 |
| **15.** | | **Free cash flow (total of 11. and 14.)** | **384.4** | 269.3 |
| 16. | - | Payments for the repayment of financial liabilities | -88.7[23] | -0.8 |
| 17. | + | Proceeds from borrowings | 1.1 | 1.0 |
| 18. | + | Dividends received | 0.0 | 0.3 |
| 19. | - | Interest paid | -15.6 | -15.6 |
| 20. | + | Interest received | 0,1 | 0,0 |
| **21.** | **=** | **Net cash flow from financing activities** | **-103.2** | -15.1 |
| **22.** | | **Net change in cash and cash equivalents (total of 11., 14. and 21.)** [24] | **281.2** | 254.2 |
| 23. | +/- | Net change in cash and cash equivalents due to currency translation | 0.2 | -0.1 |
| 24. | + | Cash and cash equivalents at the beginning of the reporting period | 81.0 | 102.9 |
| **25.** | **=** | **Cash and cash equivalents at the end of the reporting period** | **362.4** | 357.0 |

[22] Included IFRS 16 effect: Net cash flow from operating activities increased by €72.5 million.
[23] Included IFRS 16 effect: Payments for the repayment of financial liabilities decreased by €72.5 million, hence Net cash flow from financing activities decreased by the same amount of €72.5 million
[24] IFRS 16 has no impact on Total Net Cash Flow (Net change in cash and cash equivalents)

# Notes to the Interim Consolidated Financial Statements

*of Kirk Beauty One GmbH for the period from October 1, 2019 through December 31, 2019 and for the period from October 1, 2018 through December 31, 2018.*

## Segment Reporting

### Reportable Segments

| | | Germany 10/01/2019-12/31/2019 | 10/01/2018-12/31/2018 | France 10/01/2019-12/31/2019 | 10/01/2018-12/31/2018 | South-Western Europe 10/01/2019-12/31/2019 | 10/01/2018-12/31/2018 |
|---|---|---|---|---|---|---|---|
| Sales (net) | EUR m | 480.9 | 445.8 | 309.1 | 300.2 | 369.4 | 355.6 |
| Intersegment sales | EUR m | 13.2 | 19.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Sales | EUR m | 494.1 | 464.8 | 309.1 | 300.2 | 369.4 | 355.6 |
| EBITDA | EUR m | 67.0 | 32.0 | 76.5 | 64.1 | 84.9 | 53.5 |
| EBITDA-margin | % | 13.9 | 7.2 | 24.8 | 21.4 | 23.0 | 15.0 |
| Non-recurring effects on a regular basis and credit card fees – adjustments | EUR m | 0.0 | 4.8 | 2.4 | 3.3 | 1.2 | 2.0 |
| IFRS 16 effects – adjustments | EUR m | -24.6 | 0.0 | -10.9 | 0.0 | -28.9 | 0.0 |
| Adjusted EBITDA | EUR m | 42.4 | 36.8 | 68.1 | 67.4 | 57.2 | 55.5 |
| Adjusted EBITDA-margin | % | 8.8 | 8.3 | 22.0 | 22.4 | 15.5 | 15.6 |
| Inventories | EUR m | 263.3 | 280.5 | 132.9 | 135.6 | 307.2 | 303.8 |
| Capital expenditure | EUR m | 8.5 | 9.7 | 2.2 | 2.8 | 3.1 | 5.8 |

| | | Eastern Europe 10/01/2019-12/31/2019 | 10/01/2018-12/31/2018 | Consolidation 10/01/2019-12/31/2019 | 10/01/2018-12/31/2018 | Kirk Beauty One GmbH 10/01/2019-12/31/2019 | 10/01/2018-12/31/2018 |
|---|---|---|---|---|---|---|---|
| Sales (net) | EUR m | 133.5 | 118.1 | | | 1,292.9 | 1,219.7 |
| Intersegment sales | EUR m | 0.0 | 0.0 | -13.2 | -19.0 | 0.0 | 0.0 |
| Sales | EUR m | 133.5 | 118.1 | -13.2 | -19.0 | 1,292.9 | 1,219.7 |
| EBITDA | EUR m | 35.8 | 25.6 | 0.2 | 0.0 | 264.4 | 175.3 |
| EBITDA-margin | % | 26.8 | 21.7 | | | 20.5 | 14.4 |
| Non-recurring effects on a regular basis and credit card fees – adjustments | EUR m | 0.6 | 1.0 | | | 4.3 | 11.0 |
| IFRS 16 effects – adjustments | EUR m | -8.5 | 0.0 | 0.0 | 0.0 | -73.0 | 0.0 |
| Adjusted EBITDA | EUR m | 27.9 | 26.6 | 0.2 | 0.0 | 195.8 | 186.3 |
| Adjusted EBITDA-margin | % | 20.9 | 22.5 | | | 15.1 | 15.3 |
| Inventories | EUR m | 103.9 | 101.6 | -4.6 | -4.9 | 802.7 | 816.6 |
| Capital expenditure | EUR m | 5.1 | 3.0 | | | 18.9 | 21.3 |

### Non-current assets

The non-current assets recognized on a cross-segment basis include all non-current assets in Germany and abroad except for non-current tax items. Segment debt is not reported to the chief operating decision-maker on a regular basis.

| | 12/31/2019 EUR m | 12/31/2018 EUR m |
|---|---|---|
| Germany | 2.280,5 | 1.700,7 |
| Other countries | 2.228,9 | 1.352,4 |
| **Total** | 4.509,4 | 3.053,1 |

### Reconciliation from EBITDA to Adjusted Profit (+) or Loss (-)

| | 10/01/2019-12/31/2019 EUR m | 10/01/2018-12/31/2018 EUR m |
|---|---|---|
| EBITDA | **264.4**[25] | 175.3 |
| Purchase Price Allocations (PPA) | 0.9 | 2.8 |
| Restructuring costs and severance payments | 0.0 | 1.6 |
| Consulting fees | 3.4 | 0.8 |
| Other non-recurring effects on a regular basis | -6.0 | 0.8 |
| Credit card fees | 6.0 | 5.0 |
| **Non-recurring effects on a regular basis and credit card fees – adjustments** | **4,3** | **11,0** |
| IFRS 16 effects – adjustments | -73.0 | 0.0 |
| **Sum of adjustments** | **-68.7** | 11.0 |
| **Adjusted EBITDA** | **195.8** | 186.3 |
| Amortization/depreciation | -103.2 | -28.3 |
| Impairment of non-current and current assets | 0.0 | -0.5 |
| IFRS 16 effects – adjustments | 72.9 | 0.0 |
| **Adjusted EBIT** | **165.5** | 157.4 |
| Financial result | -20.7 | -18.8 |
| Reclassification of credit card fees and valuation effects of financial instruments | -5.8 | -4.1 |
| IFRS 16 effects – adjustments | 4.1 | 0.0 |
| **Adjusted EBT** | **143.1** | 134.6 |
| Income taxes | -33.9 | -37.7 |
| Income taxes on adjustments | -0,8 | -2.0 |
| **Adjusted Profit (+) or Loss (-)** | **108.3** | 94.9 |

[25] EBITDA for the first quarter of the financial year 2019/20 include the IFRS 16 lease effect amounting to €73 million.Adjusted for this IFRS16 effect EBITDA account for €191.5 million.

## General principles

Kirk Beauty One GmbH (Kirk Beauty One, parent company, company) is a German limited liability company (Gesellschaft mit beschränkter Haftung), has its registered office at Luise-Rainer-Str. 7-11, 40235 Düsseldorf, Germany and is registered in commercial register B of the district court of Düsseldorf under the registration number 79429.

Kirk Beauty One and Douglas GmbH issued Senior Secured Notes and Senior Notes at GEM segment of the Irish Stock Exchange in July 2015.

These Interim Consolidated Financial Statements cover the period of the first three months of the financial year 2019/20 from October 1, 2019 through December 31, 2019 (interim period) as of December 31, 2019 (interim reporting date) and were prepared according to the International Financial Reporting Standards (IFRS) taking into account all mandatory accounting standards and interpretations in the European Union adopted at that time.

These Interim Consolidated Financial Statements have been prepared by following IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Company's last Annual Consolidated Financial Statements for the financial year ended September 30, 2019. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last (Interim) consolidated financial statements.

Except for IFRS 16 Leases, which became mandatory for the first time on October 1, 2019, all accounting and valuation principles as well as the consolidation principles for the reporting period are substantially consistent with those applied for the Kirk Beauty One's Annual Consolidated Financial Statements as of September 30, 2019. All sales-related, seasonal or cyclical issues have been deferred during the financial year in accordance with sound business judgement.

This Interim Consolidated Financial Statements were authorized for issue by the Company's management board on February 18, 2020.

The Interim Consolidated Financial Statements were prepared in euros (EUR/€). All figures are stated in millions of euros (EUR m) unless otherwise stated.

## New accounting standards

Kirk Beauty One's Interim Consolidated Financial Statements as at December 31, 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union and mandatory for the financial year 2019/20.

Apart from IFRS 16 Leases, all other new accounting standards applied for the first time on October 1, 2019 or not yet applied have no or no material impact on the presentation of Kirk Beauty One's Interim Consolidated Financial Statements. Reference is made to the overview summary of newly implemented or revised IASB accounting standards and interpretations on page F-11 of the Kirk Beauty One's Annual IFRS Consolidated Financial Statements as at September 30, 2019.

### IFRS 16 Leases – the new lease accounting, mandatory first-time adoption for our financial year 2019/20

Douglas has initially adopted IFRS 16 Leases from October 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make payments. The (new) international financial reporting standard for leases "IFRS

16 Leases", replaced "IAS 17 Leases" and "IFRIC 4 Determining Whether an Arrangement Contains a Lease".

As of October 1, 2019, Douglas recognizes a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Payment obligations from contracts previously classified as operating leases have been discounted at the corresponding incremental borrowing rate and recognized as a lease liability (present value of lease payments).

After initial recognition, the lease liability is measured at amortized cost using the effective interest method. Therefore, the current lease payments are split into a repayment and an interest expenses component, whereby the repayment reduces the lease liability. The interest expense is recognized in the Statement of Profit- or Loss over the term of the lease.

The right-of-use asset is depreciated in accordance with the requirements of IAS 16 – i.e. the depreciation method reflects the pattern in which the future economic benefits of the right-of-use asset are consumed. In general, this will result in a straight-line depreciation charge. The depreciation period runs to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

Douglas used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- We applied the exemption not to recognize right-of-use assets and liabilities for both leases with less than 12 months of lease term and low value leases.
- We used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

In general, Douglas recognizes the lease payments associated with the short term and low value leases in the Interim Consolidated Statement of Profit or Loss as other expenses on a straight-line basis over the lease term.

Transition:

Previously, Douglas classified property leases as operating leases under IAS 17. These primarily include warehouse, retail stores and other facilities.

Douglas has applied IFRS using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at October 1, 2019. Accordingly, the comparative figures for the 2018/19 financial year have not been adjusted.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of October 1, 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the Group applied this approach to all leases.

We excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Due to the fact that Douglas is leasing about 2.300 own stores as lessee, IFRS 16 has the following significant effects on the assets, financial position, profit or loss and cash flows of the Group for the first quarter ending as at December 31, 2019.

- Recognition of the rights-of-use, predominantly from store leases, as right-of-use asset and corresponding to as lease liabilities / financial liabilities (balance sheet extension)

- Reduction of lease expenses / other operating expenses leading to higher EBITDA
- Increase of depreciation due to the depreciation of the recognized right-of-use assets
- Increase of interest expenses due to the compounding of the lease liability leading to a lower Profit (or higher Loss) of the period
- Increase of net cash flow from operating activities and corresponding decrease of net cash flow from financing activities (overall net cash flow remains unchanged)

## Consolidation principles

### Group of consolidated companies

All the German and foreign companies over which Kirk Beauty One GmbH has direct or indirect control are fully consolidated in the Consolidated Financial Statements.

| | Germany | Other countries | Total |
|---|---|---|---|
| 10/01/2019 | 22 | 37 | 59 |
| companies consolidated for the first time | 0 | 0 | 0 |
| deconsolidated companies | 0 | 0 | 0 |
| merged companies | 0 | 0 | 0 |
| 12/31/2019 | 22 | 37 | 59 |

### Currency translation

The Interim Consolidated Financial Statements are presented in euros (Group currency), the functional currency of the parent company. The annual financial statements of foreign subsidiaries whose functional currency is not the same as the Group currency are translated into euros according to the functional currency concept.

The following exchange rates have been used for currency conversion for the foreign subsidiaries:

| | | Average exchange rate 10/01/2019-12/31/2019 EUR | Closing rate 12/31/2019 EUR | Average exchange rate 10/01/2018-12/31/2018 EUR | Closing rate 12/31/2018 EUR |
|---|---|---|---|---|---|
| Bulgarian Lev | BGN | 0.51130 | 0.51130 | 0.51130 | 0.51130 |
| Swiss Franc | CHF | 0.89874 | 0.92132 | 0.86589 | 0.88739 |
| Czech Koruna | CZK | 0.03896 | 0.03936 | 0.03900 | 0.03887 |
| Croatian Kuna | HRK | 0.13480 | 0.13442 | 0.13480 | 0.13491 |
| Hungarian Forint | HUF | 0.00307 | 0.00303 | 0.00314 | 0.00312 |
| Polish Zloty | PLN | 0.23269 | 0.23492 | 0.23471 | 0.23248 |
| Romanian Lei | RON | 0.21072 | 0.20907 | 0.21487 | 0.21443 |
| Turkish Lira | TRY | 0.15730 | 0.14960 | 0.17548 | 0.16505 |
| U.S. Dollar | USD | 0.89318 | 0.89015 | 0.84639 | 0.87336 |

Foreign currency transactions are recognized in the functional currency as translated at the applicable exchange rate at the time of the transaction. Assets and liabilities nominally denominated in such foreign currencies are translated at the exchange rate on the interim reporting date. All differences resulting from currency translation are recognized in profit or loss in the consolidated income statement.

## Accounting and valuation principles

The accounting and valuation principles for the reporting period are substantially consistent with those applied for the Kirk Beauty One's Annual Consolidated Financial Statements as of September 30, 2019. All sales-related, seasonal or cyclical issues have been deferred during the financial year in accordance with sound business judgement.

### Use of judgements

Judgement was applied in particular in relation to the assessment of the level of control in determining the scope of consolidation and to determine whether leases were operating leases or finance leases.

### Assumptions and estimates

Assumptions and estimates have been made in the preparation of this Interim Consolidated Financial Statements that impact the disclosure and amount of the assets and liabilities, income and expenses carried in these statements. These assumptions and estimates were used, in particular, in the determination of useful lives, assessing the lease term as the non-cancellable period of the lease together with extension and termination options, valuing provisions and pension provisions, assessing the impairment of goodwill, measuring provisions, uncertain tax positions and measuring instruments which are issued as part of share based payment programs as well as estimating the probability that future tax refunds will be realized. In addition, assumptions and estimates are of significance in determining the fair values and acquisition costs associated with business combinations. Actual values may vary in individual cases from the assumptions and estimates made. Changes are recognized in income as soon as more detailed information is known.

## Borrowing liabilities

As of December 31, 2019, the borrowings comprise Senior Notes and bank liabilities, excluding current accounts and Revolving Credit Facility, as follows:

| | 12/31/2019 | | 12/31/2018 | | 09/30/2019 | |
|---|---|---|---|---|---|---|
| | Nominal amount EUR m | Carrying amount EUR m | Nominal amount EUR m | Carrying amount EUR m | Nominal amount EUR m | Carrying amount EUR m |
| Senior Secured Notes | 300.0 | 304.6 | 300.0 | 303.0 | 300.0 | 299.5 |
| Senior Notes | 335.0 | 342.6 | 335.0 | 341.0 | 335.0 | 334.9 |
| Term Loan B Facility | 1,670.0 | 1,670.2 | 1,670.0 | 1,670.5 | 1,670.0 | 1670.0 |
| **Total** | **2,305.0** | **2,317.3** | 2,305.0 | 2,314.4 | 2,305.0 | 2304.4 |

Kirk Beauty One also has access to a Revolving Credit Facility in the amount of €200.0 million, which has not been utilized as of December 31, 2019.[26] Individual companies also have access to bilateral credit lines, of which €0,1 million had been utilized as of December 31, 2019.

Kirk Beauty One and its subsidiaries have to meet certain obligations and key financial covenants, if 40.0 percent of the Revolving Credit Facility is drawn. Besides these financial covenants Kirk Beauty One also has to meet certain qualitative covenants. If the obligations are not met, the lenders are entitled to cancel the loan agreements with immediate effect and call upon all pledged collateral. As of December 31, 2019, the Company was in compliance with all covenants.

[26]Available amount for borrowings is reduced by €13.9 million rental guarantees.

## Hedging of financing liabilities

Interest rate caps are in place to hedge against the risk of interest rate fluctuations over a variable nominal volume of up to €1,100.0 million and a term until August 31, 2021. As of the balance sheet date, the nominal volume amounts to €1,100.0 million. The interest rate caps reduce the risk of an inclining EURIBOR to a maximum of 1.0 percent. The cash flows will affect interest income during the period from October 1, 2015 through August 31, 2021. The Term Loan B Facility agreement contains an interest rate floor at 0.0 percent EURIBOR.

| | 12/31/2019 | | 12/31/2018 | |
|---|---|---|---|---|
| | Reference amount EUR m | Fair values: Financial assets EUR m | Reference amount EUR m | Fair values: Financial assets EUR m |
| Interest rate caps | 1,100.0 | 0.0 | 1,100.0 | 0.4 |
| of which not part of a hedge relationship | 1,100.0 | 0.0 | 1,100.0 | 0.4 |

## Events after the interim reporting date

There have been no adjusting events between the consolidated balance sheet date and the date of approval of the Interim Consolidated Financial Statements for publication.